GENERAL INFORMATION

The Center for Fiscal Policy presents the results of the project whose main goal was to find the ways and mechanisms for the most effective and efficient delivery of public services in rural and remote areas in terms of scarce skilled labor, material and financial resources.

The health care and education being the most important social and publicly funded services rendered to the population at the local level were selected for the research.

The efficiency of service delivery was considered from consumers' point of view with a special stress made on the accessibility and quality of the services in question.

A special attention was paid to spending efficiency of public service delivery. Possible ways to improve public spending efficiency and find additional sources of financing were considered. Also, problems associated with implementation of new organizational forms of public service delivery in Russia-specific circumstances were analyzed.

The project was implemented with the financial support from the Open Society Institute.

Project stages:

1. Analyze current situation in the health care and education sectors in the pilot municipalities.
2. Review international experience concerning optimization of the service rendering process in rural and remote areas with emphasis put on its applicability in the Russian context.
3. Review legislation regulating public service provision.
4. Develop recommendations on ways to optimize the education and health care services in the pilot municipalities.
5. Organizaion of public hearings to advocate amendments to the regional and local legislation in the pilot regions and municipalities.

A specific feature of the project is that the main problems identified in the pilot municipalities are, on the whole, typical of rural municipalities. Therefore, the recommendations made in the course of this project implementation can be used by other municipalities to increase the quality of educational and health care services in their respective jurisdictions.

Another characteristic of the project is the time of its implementation, that is, the time of reform. The local self-governance reform, the powers and spending responsibilities assignment reform, the budgetary and administrative reforms and industry reorganizations have their impact on public service provision and thus have been taken into account during the recommendations development process. The fact that the federal center is the reform initiator means that the improvement in service provision at the local level depends not only on municipal policies but also on decisions, including legislative ones, taken higher, at the regional and federal levels.

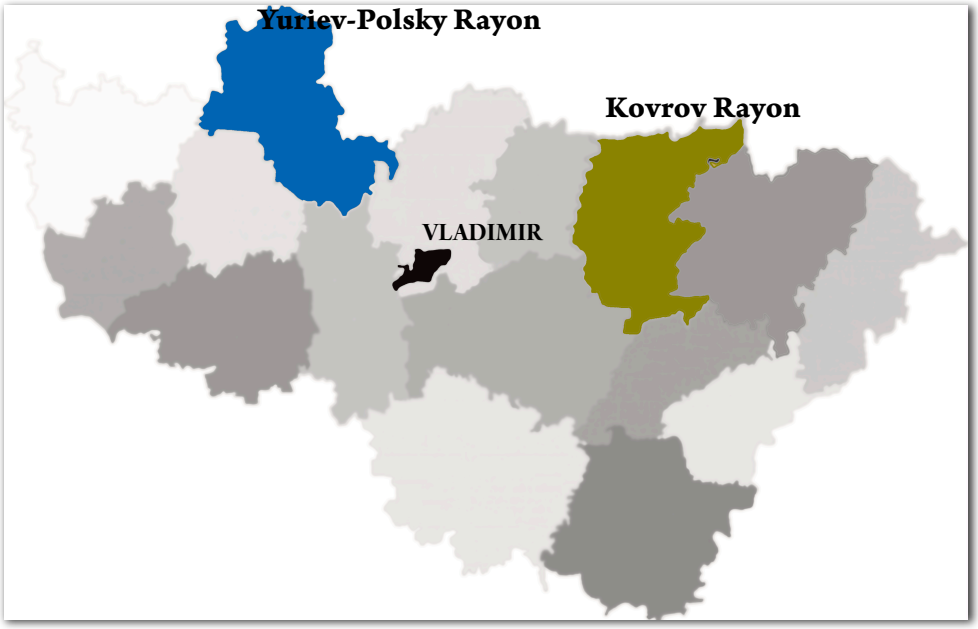
In other words, better service provision at the municipal level cannot be achieved by merely local efforts. The reform should involve the whole system of sector administration. Municipal authorities, while acting within the scope of their powers, can optimize service provision, develop a monitoring system and appraise the quality of

services on a permanent basis. But effective service provision would hardly be achieved without a single development strategy, planning, standardization, licensing and certification efforts addressing the whole sector at all its levels.

The pilot sites of the Project include Kovrov rayon and Yuriev-Polsky rayon (Vladimir Oblast) and Gatchina rayon (Leningrad Oblast)

Center for Fiscal Policy would like to express special thanks to the managers and experts of the departments of the Vladimir Oblast and the Leningrad Oblast as well as to the managers and experts of the administrations of the pilot municipalities for their assistance in the collection of information for this study and in implementing the project on places

Vladimir Oblast



Leningrad Oblast

Pilot Municipalities:

Basic Data

Low living standards of rural population are responsible, among other things, for the absence of specialists including those in the health care and education sectors. This, in its turn, has a direct impact on the quality of services.

Kovrov Rayon, Vladimir Oblast

Kovrov rayon is located in the north-east of Vladimir Oblast and is, for the most part, a rural municipality. Starting from 2006, it has incorporated five settlements, four of which are rural and one urban. It occupies the territory of 181,934 ha and is situated 73 km from Vladimir, the Oblast center. As of January 1, 2006, it had a population of 30,700. Rayon has 8 health care institutions, 20 general education schools (of which 18 are in rural areas), 15 preschool educational institutions (13 rural) and 2 additional education establishments.

The city of Kovrov, though the administrative center of Kovrov rayon, is a separate municipality (with the city district status) outside the rayon jurisdiction. Its health care and education institutions provide services both to the city and rayon residents, which is the reason why the process of public services receiving by rayon residents has some specific features (to be considered later).

According to the 2006 budget execution report the rayon government spent 5.4% of its budget on health care and almost 38% on education. In 2007, the share of education expenditures will reach 46% though there will be a 10% decline in total expenditures as compared with FY2006. Evidently the education sector enjoys priority financing from the municipality's budget. There will be a slight rise in health care expenditures – up to 7.5%.

Yuriev-Polsky Rayon, Vladimir Oblast

Yuriev-Polsky rayon with 37 800 of population is situated in the north-west of Vladimir Oblast, 70 km from the Oblast center. The city of Yuriev-Polsky is the rayon center and the only urban settlement in rayon that also includes 3 rural settlements. Rayon has 4 municipal health care institutions including the central rayon hospital, 36 general education schools (of which 32 are in rural areas), 22 preschool educational institutions (15 rural) and 2 additional education establishments in the city of Yuriev-Polsky.

The shares of rayon expenditures on education and health care amounted to 29.5% and 5.7% respectively (according to the rayon budget execution report of 2006). In 2007, the municipal budget provides for a significant (33%) cut in total budget expenditures while the shares of education and health care expenditures will increase. Further development of these sectors is important for the government of Yuriev-Polsky rayon as it is going to increase the education share to 49% and health care share to 10.1% in its budget expenditures.

Gatchina Rayon, Leningrad Oblast

Gatchina rayon is located to the south of Saint-Petersburg and includes 6 urban and 11 rural settlements. The city of Gatchina is its administrative center. Rayon enjoys its present composition since 2006 when it incorporated 3 independent municipalities.

Gatchina rayon is among the largest and most densely populated rayons of Leningrad Oblast with the greatest population size (219,900).

There are 42 general education schools (22 in rural areas), 46 (23 in rural areas) and 12 additional education establishments (4 in rural areas) in the rayon.

According to the 2006 budget execution report the rayon administration spent 36.2% of its budget on education and 8.8% on health care.

Living standards in the pilot municipalities

We were not able to get income level information from the pilot municipalities because no such data are collected at the municipal level. Currently, they are available only by regions. According to the Federal State Statistics Service the per capita money income in

Vladimir Oblast in the 1st quarter of 2007 was Rbl. 5,113.7. This is slightly more than per capita minimum subsistence level in Oblast (Rbl. 3,655) and per capita minimum subsistence level among able-bodied population (Rbl. 3,939). Owing to the low paying capacity of population in Vladimir Oblast charges for fee-based services in rural areas, as a way to improve the level of public services, also remain low. This is evidenced by the data of the Oblast branch of the Federal State Statistics Service. Thus, in Kovrov rayon the share of fee-based medical services in the total volume of fee-based services rendered in 2005 was 0.5% and the share of fee-based education services amounted to 1.8%. In Yuriev-Polsky rayon the respective shares were 1% and 5.3%. In Leningrad Oblast the per capita money income in the 1st quarter of 2007 was Rbl. 7,568.1 while the minimum subsistence level reached Rbl. 3,591. The higher the paying capacity of the population, the greater possibility for developing fee-based services. In 2005, their share in the health care sector in Gatchina rayon was 10%.

Table 1

Per capita money income/minimum subsistence level ratio in pilot regions in the 1st quarter of 2007, Rubles

	Minimum subsistence level (MSL)	Per capita in come	Per capita income/ MSL ratio
Vladimir Oblast	**3655**	**5113,7**	**1,4**
Leningrad Oblast	**3591**	**7568,1**	**2,1**

ANALYSIS OF THE CURRENT STATE OF PUBLIC SERVICES DELIVERING IN THE PILOT MUNICIPALITIES

Analysis of the Health Care Services

1. ***The review of health care management*** in the pilot municipalities demonstrated that Gatchina rayon and Yuriev-Polsky rayon have failed so far to set up bodies for health care management which contradicts the Fundamental Principles of Health Protection Legislation. The Kovrov rayon administration, in violation of legislation, created a "joint body for health care management" (city and rayon department of health care) of two municipalities: City of Kovrov and Kovrov rayon.

2. ***Administrating as well as financing of Health*** in the pilot municipalities is complex and costly. Each pilot municipality has quite a few small health care centers that employ chief physicians and have separate lines in the local budget. Such a situation challenges efforts towards optimization of Health services delivering mode.

3. In the situation of acute budget deficit municipal funds are ***spent on the following Oblast, federal and Compulsory Medical Insurance expenditure responsibilities***:

   - centralized accounts department
   - maintenance of preschool and school age patient departments
   - organization and methodological guidance units
   - maintenance of hemotransfusion station
   - procurement of vaccines for immunologic prophylaxis

The review of the ***types of health care services*** reveals the following:

- incremental budgeting of *feldsher-midwife stations* (FMS) is used in all pilot rayons;
- costing of *twenty-four-hour beds* in in-patient clinics does not take into account the *specialization coefficients of beds* (as should be done in accordance with legislation);
- all pilot rayons have *hospital beds with nursing care* that are supported from municipal budgets but are used for social rather than medical purposes; pensions are also directed for their maintenance, which is another violation of legislation that does not allow such practice in health care institutions but only in social protection institutions;
- Kovrov and Yuriev-Polsky rayons do not develop *in-patient substituting technologies* since treatment plans in in-patient day facilities are not fulfilled, while hospitalization plans are overfulfilled; in Gatchina rayon in-patient day facilities are effective (fulfill 106% of plan) and the level of hospitalization is going down; at the same time the rayons have practically no out-patient day beds;
- *polyclinics* of all three pilot municipalities do not establish the so-called physician's internal loads that are different from external loads used for one visit costing; in other words, a reserve fund to

pay for excessive work performed by some polyclinic specialists and/or to pay guaranteed salaries to underperforming staffers is absent;

- Kovrov and Yuriev-Polsky rayons have failed to train a single *general practitioner* though this way of primary health care organization is viewed as the most promising model to be widespread in rural areas and is promoted as part of the "Health" national project; Gatchina rayon has a general practitioner department but does not use to some or full extent the principles of GP fundholding;

- in Vladimir Oblast rayons the number of *first aid calls* is above the standard which is a sign that interaction between physicians in out-patient hospitals and emergency doctors is not good enough. In Gatchina rayon the picture is different – a very low number of emergency calls per 1000 people; however, one should remember that Saint-Petersburg first aid is also available to Gatchina residents. In this situation the city's municipal bodies may have financial claims on the administration of Gatchina rayon.

The review of other possible financial sources revealed the following:

- while facing a choice between two options of price regulation regarding fee-based services (price-list method and profitability limitation method), the three pilot rayons have chosen the first one; this method is worse than the second one because tariffs are subject to re-approval following the growth of wages, H&U rates etc. Also, tariffs can be set below cost under the price-list method;

- in Kovrov and Yuriev-Polsky rayons tariffs on fee-based services take into account wages of those who produce them in accordance with the Uniform Wage Scale. As a result, service producers are not interested in increasing the volume of services or improving their quality;

- apart from Gatchina rayon, no other rayon uses the possibilities of voluntary health insurance (VHI) for expanding the fee-based service market and increasing incomes of central rayon hospitals.

The specific situation with medical services in Kovrov rayon should be further explained. In 2006 Kovrov rayon was subdivided into two separate municipalities: Kovrov urban district and Kovrov municipal rayon. They are absolutely equal from the legal point of view. However, in order to concentrate expensive in-patient care Kovrov municipal rayon was given general therapeutic facilities while specialized care facilities were placed under the jurisdiction of the city of Kovrov that provides specialized in-patient care to municipal rayon residents as well. The city administration demands reimbursement of its budget money spent on medical care provided to municipal rayon patients and has provided legal arguments in its support.

Analysis of the Education Services

1. Under the regional legislation, the municipal rayons of Vladimir and Leningrad Oblasts must allocate public funds to provide financial support for the education process according to the standard whose determination procedure is approved at the Oblast level.

2. In the absence of mechanisms providing for transit to per capita standard of financing approved at the regional level, municipal governments stick to traditional ways of allocating funds across schools. Therefore, schools do not receive funding according to the per capita standard and the incremental budgeting prevails. Mechanisms responsible for making budget spending more effective, the per capita standard being one of them, are absent.

3. The distribution pattern of educational establishments between the cities and the rural areas is but another proof of the rural nature of the pilot municipalities. The share of rural schools in Kovrov and Yuriev-Polsky rayons of Vladimir Oblast constitutes 90%.

4. About 91% of schoolchildren (2006 data) are educated according to the main programs in ordinary classes.

5. The average capacity of ordinary classes is below 25 and 20 pupils (the legally established standards) in urban and rural schools accordingly. On the average there are 21 pupils in urban schools and 12 pupils in rural areas (2006 data).

6. A large share of ungraded schools (about 35% according to the 2006 data).

7. The average capacity of preschool educational institutions does not exceed the maximum standard recommended by the federal authorities (20 children) but is rather high – 18 children in all age groups on the average (2006 data).

8. On the whole, the situation with rural school manning is typical of the regions located in the Central European Russia: there are quite a lot of ungraded schools with very low capacity. The rural class capacity analysis carried out in over 190 municipalities in Russia demonstrated that on the average it amounts to 13 pupils.

9. The teacher salary fund in the total salary fund of educational institutions is 62-72% (2006 data). This is a very good figure as far as the efficiency of public spending is concerned: it indicates that the ratio of teacher staff to other staff is optimal. Still, the indicator differs widely across educational institutions.

10. There is a great diversity in the amounts of allocated to educational institutions. There is no mechanism to equalize public spending and make it more effective.

11. According to the 2006 data, the general education schools account for the largest share of municipal rayon spending on education (53%); 38% is spent on kindergartens and 9% - on institutions of additional education.

12. Wages account for about 70% in the structure of expenditures (2006 data).

13. Budget funds are spent mostly on day-to-day operations. There are no targeted programs on innovations and development of physical infrastructure.

Table 2

Average number of pupils per class in general education schools in pilot municipal rayons, 2006

Rayon	Rural schools				Urban schools			
	Ordinary classes	Gymnasium / Lyceum classes	Corrective classes	Classes of compensatory development	Ordinary classes	Gymnasium / Lyceum classes	Corrective classes	Classes of compensatory development
Kovrov Rayon, Vladimir Oblast	12	0	7	10	19	0	10	12
Yuriev-Polsky Rayon, Vladimir Oblast	7	19	0	0	21	0	11	12
Gatchina Rayon, Leningrad Oblast	18	0	14	0	25	25	12	0

Table 3

Share of other than teacher staff in the total salary fund of general education schools, %, 2006

Rayon	Rural areas	Urban areas
Kovrov Rayon, Vladimir Oblast	44	32
Yuriev-Polsky Rayon, Vladimir Oblast	35	34
Gatchina Rayon, Leningrad Oblast	28	28

Problems identified in the pilot municipalities in the course of the Health and Education Services Review

As a result of the analysis carried out in the pilot municipalities the following problems have been identified in the health care and education sectors:

1. **Lack of input – output correspondence when public service financing is concerned.**

This problem arises as a result of incremental rather than performance-based budgeting: instead of service producing a network of institutions is financed.

2. **Poor material and technical base of educational and health care establishments.**

To address this problem various equipment, including diagnostic one, is necessary for health care institutions. Rural educational establishments have problems with didactic and methodological materials and wear and tear of fixed assets.

3. **Lack of qualified staff.**

This problem exists because skilled specialists are reluctant to work in rural areas due to low salaries in educational and health care establishments.

4. **Problems of organizational and institutional nature.**

The absence of health care management bodies in the pilot regions, allocation of municipal funds on Oblast and Compulsory Medical Insurance expenditure responsibilities constitute a separate group of problems of organizational and institutional character.

Solution of these problems will optimize the process of public service rendering and improve the quality of services. In order to find the most effective ways and mechanisms for this the CFP experts have reviewed international experience in the education and health care sectors and analyzed Russian legislation in terms of limits and possibilities for service optimization.

Review of service rendering legislative framework

Alternative service provision is a widely used international practice aimed at optimization of the process of their rendering. The most popular mechanisms include the following:

- Inter-municipal cooperation – efforts and resources pooled by municipalities to provide a public service or payment by a municipality for a service provided by another municipality.
- Public – private partnership (social partnership) – involvement of the private sector into solution of problems associated with public service provision faced by bodies of state power or local self-governance.
- Fundraising – systematic activities of organizations regarding soliciting money by requesting donations or fees from service consumers, obtaining grants from the budget, charitable foundations, international donors.
- Delegation of responsibilities regarding public service provision to non-profit or non-governmental organizations.

The use of these mechanisms in Russia is often limited for various reasons including legislative ones. Provided below is a review of some RF laws in terms of possibilities of new service rendering forms as well as shortcomings that hinder their applicability.

Federal Law On Concession Agreements # 115of July 2, 2005

The law secures the principle of contractual relations between the state and private entities (either entrepreneurs or legal entities) thus giving the freedom of action to the PPP mechanisms. The law contains an exclusive list of concession agreement objects including health care and educational facilities. However, despite the fact of its adoption, there are so far but a few cases of concession agreements. One of the reasons is the absence of the necessary regulations to deal with PPP procedural issues. For instance, concession tenders can take place only when the RF Government adopts 14 standard agreements concerning various concession objects. In so far only road concession standard agreement has been adopted.

Federal Law On Autonomous Institutions # 174-FZ of November 3, 2006

The main difference between the autonomous institution (AI) as a new form of incorporation and the state/municipal institution is that the AI has discretion over its revenues, while the AI's owner has no right to receive income from AI's activities and to use assets assigned to the AI. Also, the owner has no subsidiary responsibility for obligations of the AI.

An autonomous institution may be set up, among other things, through changing the type of an existing state or municipal institution. This means that budget-supported institutions that are able to work under conditions that are, to the maximum extent, close to market conditions may be reorganized into autonomous institutions and provide services in two ways: (1) on the basis of an assignment from the founder, i.e. the state or a municipality, thus covering its expenditures from the budget, and (2) have discretion to charge fees for its services. This, essentially, is an alternative form of service rendering.

It should be pointed out that operating state and municipal institutions may not be reorganized into autonomous institutions. However, health care institutions may be set up in this form as follows from the definition of the autonomous institution.

Federal Law On Placing Orders for Deliveries of Goods, Execution of Works, Rendering Services for State and Municipal Needs, # 94 of July 2, 2005

Responsibilities for public service provision can be delegated to non-profit and nongovernmental organizations at the local level through the mechanism of municipal order when contracts are made between a municipality (client) and a service-providing organization irrespective of its forms of incorporation and ownership (contractor). The current Federal Law #94 lacks a clear procedure for public service order formulation and placement. Actually, it

regulates the relations when the client and the recipient of goods, works or services coincide in one party – a municipality. But when provision of social services is concerned a contract between a municipality (client) and an organization (contractor) is made for the benefit of a third party - the population (consumer). As of today, such relations have no clear regulation.

Federal Law On General Principles of Organization of Local Self-governance in the Russian Federation # 131 of October 6, 2002

The assignment of responsibilities among the three types of municipalities gave rise to a number of problems that hinder effective provision of social services and need to be solved. For example, properties of feldsher-midwife stations, community and nursing care hospitals have not been turned over to municipal rayons. Economic activity has become much more difficult for central rayon hospitals.

One of the aims of the local self-governance reform was to stimulate inter-municipal cooperation. The law in question provides not only for inter-municipal cooperation but for mechanisms of contractual relations as well (including subventions to cover responsibilities transferred under such contract from one municipality to another). It is a pity that under current legislation such contracts may be made only between municipalities of different levels (e.g., between a rayon and settlements). This is a major limitation on the way to inter-municipal cooperation development.

Inter-municipal cooperation is needed mostly by municipalities of the same level (e.g., for residents of one rayon to be able to visit another rayon's hospital that carries out inter-rayon functions, or to have a joint first-aid station to serve residents of two municipal rayons). The obstacle to cooperation between municipalities of the same level is that it is impossible to make budgetary transfers from one municipality to another.

Traditionally, sophisticated medical care was concentrated in one of the central rayon hospitals (CRH) that enjoyed the status of inter-rayon center. Patients from other rural rayons were directed to the CRH free of charge. Now, when there is no mechanism to transfer budget money from one rayon to another it is necessary to make settlements between two legal entities (two CRHs).

Federal Law # 131 envisages the right of municipalities to charge fees for all or some public services. However, after tax incomes of municipal institutions received for fee-based services are regarded as own revenues of local governments. Municipal institutions have no discretion over funds received by them for fee-based services. To be able to do so they need to be reorganized into autonomous institutions that may render services, within the scope of their main activities, to physical persons and legal entities for fees. At the same time the owner of an autonomous institution has no right to its incomes.

Thus, the use of all alternative forms of service rendering reviewed in this report has been legally settled. But there are obstacles to their practical application: subordinate legislation that is necessary for the superior laws to start working is absent, numerous amendments are made to the adopted laws, and, most importantly, there is a lack of practical experience.

OPTIMIZATION OF PUBLIC SERVICES PROVISION: INTERNATIONAL EXPERIENCE

International experience in the Health Care Sector

Fundraising by budget-supported institutions

Develooped countries actively use various fundraising mechanisms to develop health care institutions and improve their services. The most popular mechanisms include:

- donor fundraising (either individual or corporate), and
- legally permitted out-of-pocket payments for health services.

It should be noted that in the USA, for instance, major health care institutions collaborating with medical scientific organizations that are the leaders in their respective sectors are engaged in donor fundraising. They possess all the necessary resources for a skillful fundraising campaign and have a clear vision of the problem they are going to solve with money raised.

Small rural medical centers are mostly supported from the budget. An illustrative example is provided by Australia whose government started the Rural Medical Infrastructure Fund as part of the national program of regional development. Starting from 2005, the Fund will allocate 15 mln dollars to develop infrastructure of health and medical facilities in rural and remote areas. Another example is the U.S. Department of Agriculture that either gives direct financial support to rural health care centers or finances their capital expenditures through other mechanisms.

Approaches to out-of-pocket payments as a form of fundraising differ across countries. In the USA, it is a mix of public and private funding. As a rule, employers make contracts with private health insurance companies that pay for patient treatment in health care institutions. The government has special health insurance programs for the poor, unemployed and individuals from disadvantaged groups. The share of out-of-pocket payments made by the patient directly to the doctor/health care institution by-passing an insurance company is not large. However, there are debates about increasing the share of such payments. Its advocates argue that adherence to the insurance principle is a threat to the quality of medical services while the out-of-pocket mechanism makes the patient assess the quality of service against its cost.

In Canada, health care services are mainly funded through general taxation. The government establishes a list of medical services that are to be provided free of charge. It is illegal to render them on a commercial basis. This, however, has a negative impact on their quality and accessibility. According to the 2004 opinion poll, 57% of the population is ready to pay extra charges for shorter waiting time. The question has not been legally settled yet.

In Russia, it is very difficult for medical budget-supported institutions to find legal sources of additional financing. For instance, rent payments for leasing unoccupied areas are remitted to the account of a local authority responsible for municipal property management rather than to the medical institution itself. Sanitary rules make it difficult to use unoccupied areas for other than medical purposes. Therefore medical institutions have to pay H&U fees even for wards and stories that became unoccupied as a result of excessive bed capacity cuts.

In principle, one may lease expensive medical equipment to private medical companies in order to reduce its downtime during nonworking hours. But this requires establishment of rates and an agreement of municipal authorities which in most cases they would not give.

Medical budget-supported institutions have no right to use leasing schemes to buy equipment or borrow from banks.

Budget-supported institutions may render commercial services to the population. But in many cases the amount of funds allocated to them from the budget would be cut by the amount of their income, which does not encourage them to develop commercial activities. Also, the legislative framework regarding out-of-pocket payments for health care services rendered by state and municipal institutions is extremely inadequate.

As a result, fundraising in Russia has become uncivilized. – Many hospitals demand payments for catering, drugs etc. though formally these expenses are to be covered from the Fund for Obligatory Medical Insurance.

Possibilities of outsourcing at the municipal level

A review of international experience shows that there are two main ways of using outsourcing mechanisms in the health care sector.

The first way is to delegate certain functions to outside agencies. These are the functions that are not directly connected with health care but are necessary for smooth work of health care institutions and patients' comfort. They include catering service, care provision to inpatients, hardware and software services, organization of call centers, cleaning and refurbishment services and roentgenology.

International experience (USA, Great Britain, and Canada) suggests that outsourcing is used for two purposes:

- cut costs and make economic activity of health care institutions more effective,
- free up institution resources used on non-core work and put them to more productive use and thus improve the quality of health care services.

According to an American outsourcing researcher, 70% of health care institutions in Baltimore (USA) that have outsourcing contracts have cut their costs by 20% and get better quality of outsourced functions (patients get better food, medical records are processed quicker etc.).

Evidently, outsourcing used for the above purpose would be very promising in Russia. Today the catering function, as the most prospective, has been employed by many health care institutions in Moscow and proved its effectiveness. It is also important to note that the costs of catering do not grow when the function is outsourced.

The second way to use outsourcing, a very popular in the European Union, is to involve non-budget companies that receive, on contractual basis, municipal orders for provision of medical services. Private health care companies that use private and insurance financing are also developing. Sometimes they carry out a social order funded from the budget.

As of today, there are no prerequisites or legislative framework for developing this form of outsourcing in Russia. An organization carrying out a budget order needs full coverage of the service costs including profit margin. In most RF regions the health care budget service (patient treatment, out-clinic visit, standard labor capacity unit of dental services) is not paid in full to say nothing about profit margin. The financial gap is covered by open or hidden co-payments by patients in form of fee-based services, purchases of drugs and food and various additional payments for supplies. In this situation it is impossible to outsource a public service to an outside company.

Organization of health care provision

The major difference between health care organization in Europe and the USA, on the one hand, and in Russia on the other is the number of tiers. As distinct from the Russian two-tier system, the health care in European countries and the USA is multi–tiered which means that in addition to in-patient and out-patient care they have various "in-between" establishments such as out-of-hospital and semi-hospital care.

The Russian health care system has remained practically unchanged since the years of collectivization and industrialization. Its two tiers include out-patient care and hospital care that are practically autonomous and only slightly integrated.

There is a growing understanding in Russia that preservation of the traditional two-tier health care system will increasingly hinder the sector's opportunity of becoming profitable. The need in a multi–layered system with its out-of-hospital care and stratification of the universal in-patient care along business processes is felt.

The experience of Canada and European countries (Great Britain, Italy, Spain and others) where the system of health care and health insurance is publicly funded demonstrates that short-term in-patient care and home care can significantly cut the costs of long-term in-patient care. Reduction of 24-hour hospital bed capacity makes the rest work with greater intensity.

At the same time in-patient day facilities should be used actively and assume functions of in-patient care that does not require 24-hour observation rather than functions of out-patient care establishments. In other words, they should not be an addition to in-patient care but its substitution. It should be noted that shifting to day care does not require additional public spending and therefore will be quite applicable in Russia where under-funding is often a major obstacle to effective service provision.

The objective of health care network restructuring is to build an effective system of medical assistance where the possibilities of state and municipal health care facilities will be used most rationally and be adequate to the obligations of the state.

Conclusions regarding applicability of international health care experience in Russia

1. To improve the quality of health care services by increasing the share of fee-based care will be difficult in today's Russia because of the low purchasing power of rural population. Other fundraising methods are not very popular owing to legislative reasons and specifics of rural health care institutions.

2. Russian health care institutions can use outsourcing and delegate some non-core functions to outside agencies. The international and Russian experience has demonstrated that the catering function is the most prospective: the quality of food becomes much better when the function is outsourced.

3. Russia is quite able to follow the international example and move from its two-tier health-care system to a multi–layered one. The most urgent task to be fulfilled in the course of the restructuring project would be to strengthen the role played by day in-patient care establishments: on the one hand, this does not require additional funding and, on the other, it can improve the intensity and quality of treatment.

International experience in Education Sector

Public-private partnerships

Contractual relations between the state/municipality and private organizations have become a widespread option aimed at education service optimization. The recent tendency in industrial countries is a shrinking role played by the state in public service provision as compared with the ever more strengthening presence of the private sector. One of the forms of contractual relations is the public-private partnership (PPP).

It should be noted that PPPs are not typical of the US system of general education where the growth of the private sector in this field is not encouraged (80% of private schools are confessional schools).

One of the strong PPP features is that the private businessman is much more interested in effective spending than the bureaucrat-administrator. At the same time the state retains its control function and imposes serious requirements on the content of contractual documents and obligations undertaken by private businesses.

Great Britain provides a good PPP example in the education sector. One of the education reform policies at the end of the 1990s concerned PPP-based contractual relations between the public and the private sectors. By 2000, over 50 contracts were signed in the course of a PPP experiment in which 450 schools took part. As a rule, private businesses undertook technical and maintenance functions.

There are several types of contracts made with private businesses of which the most widespread are the following:

- The Design-Build-Finance-Operate (DBFO) approach: the responsibilities for designing, building, financing and operating are bundled together and transferred to private sector partners. This is a standard scheme within the program aiming at stimulating private funding of schools.
- A mixed agreement between the local administration and private companies. The difference from the former approach is that in this case works and services are rendered by an organization whose shares belong both to the private and the public sectors.

There are other, special schemes to fund, e.g., school construction and overhaul projects through electricity saving etc.

Though the efficiency of such mechanisms has been proved in market economies, not all of them can be used in Russia. Still, they are quite possible provided the following conditions are observed:

- competitive market of private sector providers of services in a specific region;
- costing methodology that is necessary for developing contractual relations;
- approved regulations dealing with PPP procedures.

Socially oriented fundraising

Socially oriented fundraising is another social partnership strategy actively used in western countries that becomes increasingly popular in Russia.

Under this approach a school and its partner (nonprofit organization) offer a local community (population of the school catchment area, local employers) to become partners in various social projects of local importance instead of making donations to the school in question. The school and the nonprofit organization provide organizational and human resources. The educational area is broadened to include the local community; the school acquires new resources and thus is able to meet educational challenges. The participation in the project gives an opportunity to the partner NPO to improve its investment image in the nonprofit sector and have better chances to win tenders for social, cultural and education projects.

Cash incomes of NPOs in rural areas are not high as compared with cities. Still, the above form of fundraising can eliminate conflict situations with parents of schoolchildren with regard to "donations". There is a risk, however, that rural administrations would shuffle off the burden of their social work on the shoulders of eager schools. The latter should be careful and not overact as far as the local community and the administration are concerned. They should build the relations of social partnership and collaboration in the interests of all partners and avoid stimulating social dependency of the community and the administration.

APPROACHES TO RESOLUTION OF THE ISSUES IDENTIFIED

Transition from financing of institutions to financing of services

One of the main obstacles preventing efficient provision of public services by budget-supported institutions is their funding according to a fixed budget. Transition to new principles of budget formulation and execution based on performance-oriented budgeting (POB) means that agencies rendering services will be funded in accordance with the quality and quantity of services provided.

Shifting to service funding is necessitated not only by POB introduction but also by implementation of the idea of strategic planning (costs - value analysis) and diversification of public service providers.

In today's Russia there are two possible ways of service provision based on alternative funding:

- under assignment, and
- under state/municipal contract.

When services are rendered under an assignment the providing organization must fulfill the assignment in terms of service quantity and quality. Such obligatory assignment may be given only by the organization's founder. Newly formed autonomous institutions with the state or a municipality acting as the founder operate according to the assignment mechanism as a rule.

The assignment funding must cover all the costs of the autonomous institution associated with it.

Services can also be funded through state contract. The state/municipality organizes a tender and invites budget-supported and other enterprises irrespective of their form of incorporation and ownership to take part in it. The winner receives the order from the state/municipality to deliver services of certain quality and quantity. The difference between the two mechanisms is that (1) participation in tender is voluntary and (2) in the event of a public order the funding should be enough to cover economically sound costs and bring profit.

The far from perfect condition of the current regional/municipal legislative framework is responsible for the difficulties faced by service funding. The necessary documents without which smooth shift to service funding is impossible include the following:

- public service costing methodology,
- public service quality standards including material and technical standards and terms of service rendering,
- forms of state control over public service rendering,
- procurement procedure, i.e. procedure of service provision by variously incorporated organizations on behalf of the state/municipality for the benefit of the third party (population),
- forms of standard contracts between the state/municipality and an NGO, and
- mechanisms to transfer state property into NGO ownership.

Issues related to physical capacity and staffing of an institution

Problems of poor material equipment and understaffing of education and health care establishments in rural areas stand in the way of effective public service provision. At least partly, they can be solved within the framework of the national priority projects.

Starting from January 1, 2006, Russia has been implementing four national priority projects aimed at achievement one the national strategic goals – improvement of the quality of life. Two of these projects concern the education and health care sectors.

The "Health Care" national project has three subprojects: prioritization of primary health care (PHC), preventive care strengthening and better availability of high-tech medicine.

Special attention is paid to primary health care which is a responsibility of municipal authorities. One of the reasons of health care low performance in Russia is the priority given recently to in-patient care to the detriment of pre-hospital treatment.

As a result the sector lacks district doctors and diagnostic equipment in out-patient clinics. These factors have a negative impact on the quality of PHC and increase the number of chronic and neglected diseases and invalids.

Hopefully, PHC improvement measures will help to identify and prevent many illnesses. For this purpose, steps in the following directions are taken:

- raise salaries to district doctors and nurses;
- improve materials equipment of medical institutions;
- additional training of personnel (including general practitioners);
- introduction of childbirth certificates.

Raised salaries will stimulate qualified specialists to remain in the sector and thus increase the quality of medical services, especially in rural areas. With time, salaries of medical specialists and paramedical personnel should be also raised to in order to eliminate wages mismatches.

Availability of modern high-tech and diagnostic equipment is necessary for better diagnostics and treatment and will have a positive effect on the quality of health care services.

The national project also provides for active use of the GP model as the most perspective in rural areas. That is why the Vladimir Oblast pilot rayons where there are no general practitioners have undertaken, according to the rayon leaders, their training.

On the whole, the pilot rayon leaders have a high opinion on the assistance under the "Health Care" national project, without which they would not find enough money in their budgets to solve some specific problems. Kovrov rayon, for instance, was able to obtain modern X-ray equipment with funds allocated under the project.

The "Education" national project includes the following activities:

1. Introduce a new wages system in the general education sector in order to increase teachers' incomes,
2. shift to standard per capita funding of educational establishments,
3. develop a regional system of qualitative assessment of education,

4. develop general education networks in the regions: create conditions to make qualitative general education available irrespective of the place of residence,

5. promote public participation in education governance.

The fourth item is especially important for people living in rural areas. Implementation of this policy will raise the quality of education services in rural Russia.

It should be noted that the national projects have a complicated system of administration which is the reason why it is difficult for local authorities to "incorporate" their municipalities into them.

Outlook for the health care and education sectors

Since the future of the national projects is not determined, to further stimulate, at the necessary level, teachers and doctors and to properly maintain main assets of educational and health care establishments, i.e. to shift to an effective system of governance and funding, the federal government will need to carry out structural reforms in both sectors.

RECOMMENDATIONS BY SECTORS

Health

List of recommendations for optimizing performance of health care services in the pilot municipalities

1. Following the submission of the annual report, analyze the causes of early mortality (working-age deaths) leading labor capacity decline and, finally, in municipal budgets' revenue losses.

2. Continue with restructuring the 24-hour bed space.

3. Current health care plans, including monitoring of municipal orders made by jurisdictions and medical establishments, should be approved before budget formulation rather than after its approval. A regional program guaranteeing availability of free medical assistance should be adopted by the legislative body of a region concurrently with the region's budget and the budget of the regional CMI.

4. Prevent decline in health care appropriations and cuts of the health care share in the rayon budget. Otherwise, the re-allocation of budget funds to cover annual growths of the wage portion of expenditures and H&U rates will be inevitable. Also, the situation with financing the economic activity of medical establishments will deteriorate accompanied with the absence of timely equipment repairs and purchases.

5. In the situation of acute budget deficit municipal funds should not be spent on Oblast, federal and CMI expenditure responsibilities.

6. Complete the assignment of powers and expenditure responsibilities between the municipal budget, the regional budget and the Oblast Fund of Compulsory Medical Insurance budget. Failure to assign them results in local governments' spending to cover expenditure responsibilities of governments of other tiers.

7. The Consultant recommends the following steps to develop fee-based services:

   a. Regulate prices using the profitability limitation method (as is the case with the medicine market regulation) rather than the price-list method. Experience shows that 20% profitability is quite sufficient for the development of fee-based services at the municipal level.

   b. Do not limit wages of service producers to the rates set by the Uniform Wage Scale but go to the piece-work bonus system depending on the volume and quality of services.

   c. Allocate no more that 50% of profit for the development of the material and technical base.

The problem of availability of specialized in-patient care to the residents of Kovrov rayon can be solved in the following way. - Since the transportation to Oblast establishments in the city of Vladimir is good Kovrov rayon residents can receive specialized in-patient care in the Oblast medical and preventive treatment facilities, while Kovrov rayon may request to change the status of Melikhovo rayon hospital (situated in Melikhovo settlement of Kovrov rayon) to the status of the central rayon hospital whereby all district hospitals will be united into one legal entity. Thus, on the one hand, administrative costs will be cut (as only one director and one chief accountant are needed) and, on the other, higher CMI rates on drugs and supplies can be claimed. Also, the city administration will not be able to claim reimbursement of budget funds spent on health care of rayon patients in the medical establishments of the city of Kovrov.

Table 4

Recommendations for improvement of the health care sector in the pilot municipalities

Area of improvement	Kovrov Rayon, Vladimir Oblast	Yuriev-Polsky Rayon, Vladimir Oblast	Gatchina Rayon, Leningrad Oblast
Improvement of the managerial system			
Health Management System	Subdivide the currently single health care department that manages the city and rayon health care affairs into independent municipal health care departments	Include the health care department into the structure of the rayon administration	Include the health care department into the structure of the rayon administration
Institutions	Set up a single legal entity – central rayon hospital	Set up a single legal entity – central rayon hospital	Give the status of the main spending agency to the health care department and the status of spending units to the central city clinic, rayon and city hospitals.
Accounting Services	The accounting and reporting office will be functioning within a big single legal entity – the central rayon hospital (as recommended above)	–	Rename the Central Accounting Office in the central rayon hospital into the Office of Accounting and Reporting. Thus, the funding source will be changed automatically from the local budget to the CMI system.
Improvement by types of health care services			
FMS	Establish a financial standard for FMS maintenance during a year		
Infections diseases hospitals	–	Separate the infectious diseases hospital into an independent establishment and start funding it from the Oblast budget (to be agreed with Oblast)	

Area of improvement	Kovrov Rayon, Vladimir Oblast	Yuriev-Polsky Rayon, Vladimir Oblast	Gatchina Rayon, Leningrad Oblast
Hospital beds with nursing care	The status of hospital beds with nursing care should be changed to beds of medical and social care. For this local governments should transfer the relevant property into regional ownership (subject to approval of the Oblast authorized bodies). For the access to primary medical care to remain in the jurisdictions having hospital beds with nursing care and no other medical establishments or their subdivisions, it would be necessary to open an FMS or an ambulance station.		
In-patient day facilities	–	Change the status of the in-patient day unit for the out-patient day facility status.	
In-patient clinic	Use "internal" and "external" workloads within in-patient clinics.		
General practitioners	Train several general practitioners		Start using some principles of GP fundholding (as agreed the Health Care Committee of Leningrad Oblast)
Emergency	Work out emergency calls in the daytime. Improve the interaction between physicians of out-patient clinics and ambulance medics		

As has already been noted, efforts at the municipal level only will not be enough to build a qualitatively new system of public services. At present, the federal center has undertaken several health care reforms that eventually should make the sector's work more effective and, consequently, improve the quality of medical services. The reforms include the following:

- transition to single channel of funding (from the compulsory medical insurance funds) instead of the previous two-channel system,
- introduction of new forms of incorporation of institutions and mechanisms of full or partial GP fundholding,
- introduction of full tariffs,
- development of fee-based services.

Education

It is recommended to the municipalities of Vladimir and Leningrad Oblasts to abandon the traditional way of planning the budget and expenditures of educational institutions. Both the international and emerging Russian practice demonstrate the efficiency of budget planning on the basis of per capita standard used for funding a standard education service. Also, differentiating coefficients (on education in rural schools, in correctional, gymnasium/lyceum classes, stage-depending coefficients etc.) should be applied to the standard. A standard education program of a certain level should be provided under the same conditions everywhere, in cities and rural areas alike. With the introduction of new per capita funding mechanisms in the general education sector, public services will be funded rather than educational institutions. This will increase the quality of education services provided to all consumers irrespective of the place of residence.

It was recommended to the pilot regions to use the basic standard of spending on teachers' salaries per pupil as the starting point for calculation of the final standard spending to implement general education standards.

It is recommended to include expenditures on wages of the administrative and support staff into the general wage standard on the basis of the standard share, either determined or actual, of such expenditures in the total wage bill of municipal educational institutions. Also, one may provide for a step-by-step transit from the actual share to the one determined in accordance with the standard.

Costs of educational process, other than wages, are recommended to be included into the standard of expenditures on the implementation of the state general education standard in the same way, i.e. using the actual or prearranged shares in the total spending on the implementation of general educational standards covered from the Oblast budget.

Rural ungraded schools should be funded in accordance with the actual conditions under which educational services are provided. Federal Law # 122-FZ of August 22, 2004 (Article 21.16) provides for the procedure of using the per capita standard for budgeting and funding such schools: "in the event of rural ungraded schools and those regarded as such by the bodies of state power and the authorities responsible for education management in educational institutions the funding standard should take into account expenses that do not depend on the number of pupils." To implement this RF law at the regional/municipal level a regulation approving the provision on rural ungraded schools and those regarded as such should be adopted.

If there is no mechanism for transit to the per capita funding standard at the regional level municipalities should, at the municipal rayon level, approve adaptation procedure and conditions during the transitory period to avoid possible negative social consequences. The latter may arise as a result of cuts in previously ineffective funding of certain educational institutions.

Standard costs were determined on the basis of calculated standards and taking into account the difference in wage rates established under the uniform wage scale for the average category of teachers in city (13th category) and rural (12th category) schools. Average categories were determined on the basis of 2006 – 2007 actual data provided by municipal rayons with attention paid to new sectorial compensations and, consequently, to higher wage rates as planned by the regions. Standard costs were multiplied by the number of pupils according to the State Statistics Form OSh-1 provided by municipal rayons.

On the basis of the above calculations some conclusions can be made from the preliminary analysis of winners - losers from the standard-based allocation of subventions across educational establishments. Standard costs calculations depending on the number of pupils were not made with regard to ungraded schools.

Table 5

Expenditures on wages + social contribution charges and educational costs (calculated by the CFP) as deviated from the 2007 planned expenditures

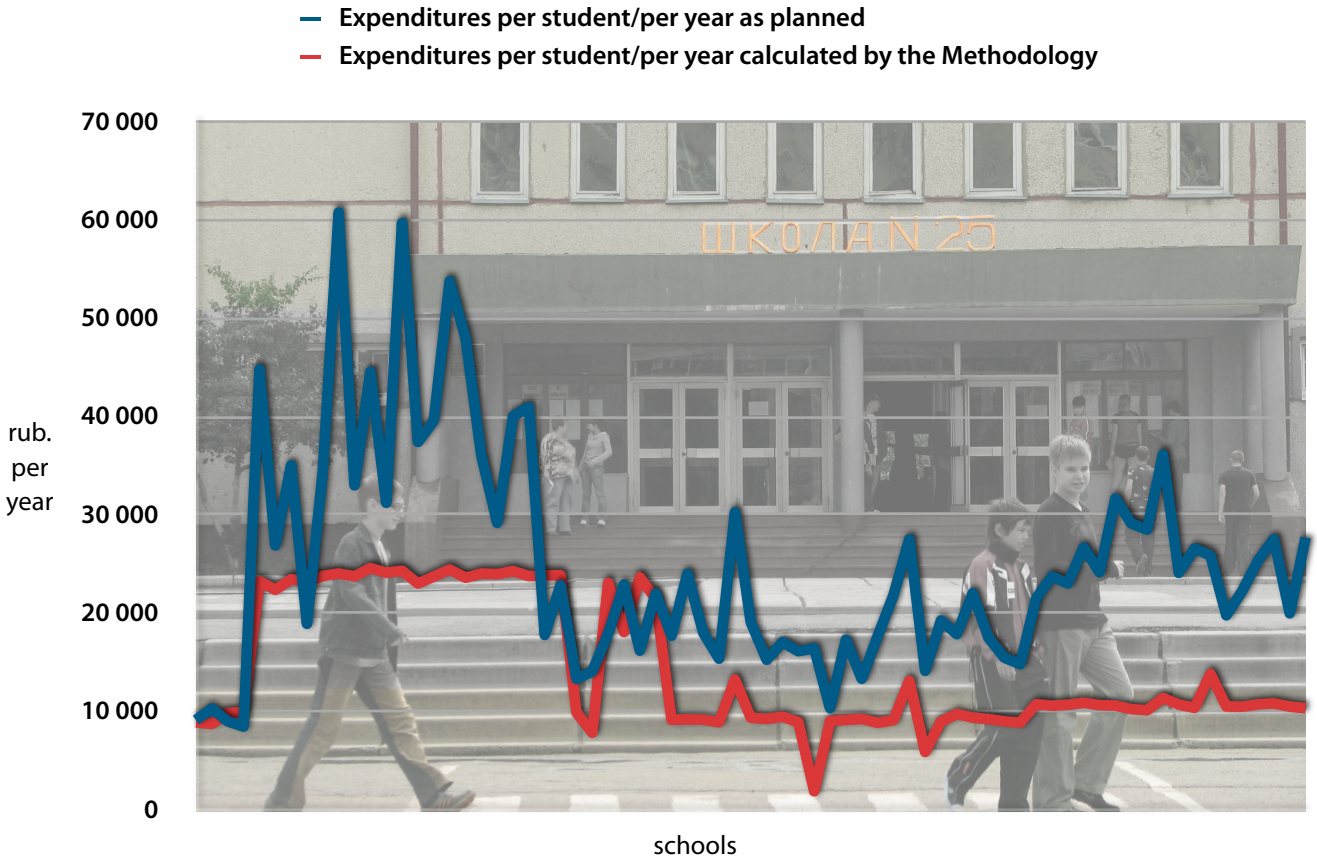
	Kovrov Rayon, Vladimit Oblast	Yuriev-Polsky Rayon, Vladimit Oblast	Gatchina Rayon, Leningrad oblast
Standard deviation	**0,26**	**0,33**	**0,19**
Coefficient of variation	**0,26**	**0,34**	**0,20**
Maximum	**1,36**	**1,67**	**1,61**
Minimum	**0,67**	**0,48**	**0,68**

In the rayons under review, there is, on average, a reserve of budget funds needed for the implementation of the main general education programs if they pass to the per capita standard for calculating expenditures on wages plus social contribution charges and educational costs. Still, the differentiation of the above indicator, "Expenditures on wages + social contribution charges and educational costs (calculated by the CFP) as deviated from the planned expenditures", is high, the coefficient of variation being 0.2-0.34. First of all, this is explained by a great number of ungraded rural schools. Thus, if one agrees with the criteria that allowed rayon authorities to include schools into the category of ungraded, Kovrov rayon has 68% of ungraded schools, Yuriev-Polsky - 37% and Gatchina rayon - 9%.

Chart 1 shows the decline in differentiation of unit costs of wages (practically no difference in unit costs of wages in schools of the same type) if budget funds are allocated to urban and rural schools on the basis of the per capita funding standard (ungraded schools not included).

Chart 1

Unit costs of wages + social contribution charges (planned vs. standard) in schools of Vladimir and Leningrad Oblast rayons under review in 2007 (less ungraded schools)



The proposed methodological approach will enhance the performance of funding and governance in the education sector. The per capita funding mechanism will make possible the following:

- increase performance of public spending on education;
- equalize fiscal capacity of educational institutions;
- allocate public funds according to the equity principle;
- add transparency to the budgeting process.

All the above advantages of the per capita funding standard constitute prerequisites for better and more available provision of education services in municipalities.

Conclusions

On the whole the situation with the education and health care sectors in the pilot municipalities is typical of rural Russia. It is characterized by problems that need to be resolved in order to optimize public service provision. In case of Russia, the possibilities of using internationally widespread instruments for improving the quality of public services are restricted. To some extent this is explained by legislative problems that should be dealt with mostly on the regional and federal levels. But the more serious reason is low living standards in rural areas.

The measures for optimizing public service rendering in rural areas proposed to the pilot municipalities are also recommended for consideration to other municipal rayons that face similar problems.